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Financial Analysis of Selected Company

Finanční analýza vybrané společnosti

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4. Financial Analysis of Selected Company
5. Conclusion

Bibliography
List of Abbreviations
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References:

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"I hereby declare that I have elaborated the entire thesis including annexes myself."

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Content

1. Introduction

As we all know, Buffett has a habit of reading financial statements of listed companies. In Buffett's view, most companies usually publish some false information in order to attract investment, but the company's financial report will not lie. It provides investors with a window that fully displays the company's overall picture.

However, it is worth noting that reading doesn't just mean reading. What distinguishes each investor's ability is “how to read”. Financial analysis help investors to find more information after reading. The goal of the thesis is to apply financial analysis methodology in order to assess the financial performance of Weibo Corporation from 2015 to 2019.

From this thesis, we learn how to use a series of financial analysis techniques to evaluate the company's various capabilities, such as profitability, liquidity, solvency, asset management and so on. After having a specific and profound understanding of the company's situation, we can judge the company's operating conditions and make predictions about the company's future.

This thesis is divided into five chapters. In chapter 1, there is a brief description of whole thesis and the content and structure of the thesis.

In Chapter 2, there are some basic introductions. In the first place, this part explains the definition and aim of financial analysis. Then the second part expounds the basic composition and specific items of the three main financial statements (balance sheet, income statement, cash flow statement), and the connection between them. Last but not the least, the third part is the description of financial analysis methods, including common-size analysis and financial ratio analysis.

In chapter 3, the main content is the characteristics of Weibo Corporation. The first subchapter will introduce some general information of Weibo Corporation, including business areas, development course and peer comparison. The second subchapter analyzes the prospects of Weibo Corporation.

In chapter 4, based on the financial analysis method introduced by chapter 2, the thesis conducts financial analysis of Weibo Corporation's five-years financial data.

The chapter 5 is the conclusion of the whole thesis.

2. Description of Financial Analysis Methods

In this chapter, we introduce the definition and the use of financial analysis; the three main financial statements and the connection between them; four types theoretical methods of financial analysis that will be used in chapter four.

The four analysis methods selected in the text include common-size analysis and financial ratio analysis.

2.1. About financial analysis

"Financial analysis is the process of examining a company's performance in the context of its industry and economic environment in order to arrive at a decision or recommendation." *(*Robinson, 2015, p. 1)

Generally, financial analysis is used to analyze whether an entity is stable, solvent, liquid, or profitable enough to warrant a monetary investment.

2.2. Financial statements

Financial statements comprehensively reflect the financial status of a company on a specific date and the operating results and cash flow status of a specific period. The understanding of financial statements can help the managers, the national supervision and management departments, and investors to have a more comprehensive and clear understanding of the business situation of this enterprise. Subsequently, they can make decision based on this information. The managers can find problems, adjust business direction and formulate improvement measures. The government can understand and master the economic development of various industries and regions in order to macro-control economic operations, optimize resource allocation, and stabilize the economy. The investors can adjust their investment quota or duration for better return.

The three main financial statements are balance sheet, income statement and cash flow statement, which are classified according to the importance of accounting information provided by the report.

2.2.1. Balance sheet

According to Wahlen (2010, p. 19) *"the balance sheet (or statement of financial position) presents a snapshot of the resources of a firm (assets) and the claims on those resources (liabilities and shareholders' equity) as of a specific date. The balance sheet derives its name from the fact that it reports the following balance, or equality:"*

$$Assets = Liabilities + Shareholders' Equity. \tag{2.1}$$

The two sides of the equation represent where the company's funds are spent and from. A company starts operations with some initial investment and debt. And then if the company profits from its business, a part of profit will be paid to shareholders, the other part profit will be reinvested into new business or used as a reserve.

Assets are generated either by investing activities, operating activities or financing activities. Generally, the assets can be divided into fixed assets and current assets. The fixed assets refer to long-term assets and the current assets usually represent short-term assets, one year as the limit. Accordingly, current assets have higher liquidity than fixed assets, highly liquid assets can be relatively quickly converted into cash. Fixed assets can be further subdivided into tangible assets (equipment, land, buildings, etc.), intangible assets (trademark, patents, goodwill, etc.), and financial investments (investments in securities and assets of other firms – shares, bonds, etc.). Current assets can be further subdivided into accounts receivable (represent money owed the firm by individuals or by other firms on the sale of products (goods) on credit. - inventories (raw material, goods for sale held by a firm for eventual sale, etc.) - cash and cash equivalents (short-term tradeable securities).

The right column of the balance sheet includes liabilities and shareholders´ equity. Liabilities can also be called debt, defined as the source of capital provided by creditors. It represents the currency that the company has borrowed and must be repaid back at some predetermined date. Like assets, it can be divided into long-term and short-term. Like accounts payable (credit extended by suppliers to a company when it purchases inventories), accrued expenses (short-term liabilities but not yet paid), and short-term notes (money borrowed from a bank payable within 12 months), they all belong to short-term liabilities. The long-term liabilities include bank loans, issued bonds and other items which have been borrowed by company for longer than 12 months. Finally, shareholders´ equity represents the shareholder´s investment s into company, it is the capital belonging to the owners or shareholders of the company. It can be categorized by registered capital (shares outstanding multiply by nominal value), share premium (paid-in capital), retained earnings and other items.

Overall, because of the equivalence between the two columns of the balance sheet, the changes between the items in the two columns are positive, while the changes between the different items in the same column are negative.

Table 2.1: The sample of Balance Sheet

Balance sheet	
Assets	**EQUITY+LIABILITIES**
Fixed assets	**Equity**
Tangible assets	Share capital (par value)
Intangible assets	Contributed capital (excess par value)
Financial investments	Retained earnings
Other long-term assets	
Current assets	**Liabilities**
Inventories	Short-term borrowings
Accounts receivable	Long-term debt
Marketable securities	Accounts payable
Other short-term assets	Notes payable
Cash and cash equivalents	Accrued expenses

Source: Dluhošová et al. (2014, p. 51)

2.2.2. Income statement

The income statement records the amount of profit generated by a company over a certain period, often a year. It compares the company´s revenues and company costs and expenses. From its other name, profit/loss statement, P/L statement, we can know this statement indicates the revenues and expenses of the company and resulting profit or loss during a particular period.

$$Net\ profit\ /Loss\ =\ Revenues - Cost\ and\ Expenses \tag{2.2}$$

"*Revenue typically refers to amounts charged for the delivery of goods or services in the ordinary activities of a business. Other income includes gains, which may or may not arise in the ordinary activities of the business. Expenses reflect outflows, depletions of assets, and incurrences of liabilities that decrease equity. Expenses typically include such items as cost of sales (cost of goods sold), administrative expenses, and income tax expenses and may be defined to include losses. Net income (revenue plus other income minus expenses) on the income statement is often referred to as the "bottom line" because of its proximity to the bottom of the income statement. Net income may also be referred to as "net earnings," "net profit," and "profit or loss." In the event that expenses exceed revenues and other income, the result is referred to as "net loss."*" (Robinson, 2015, p. 13)

There are many activities in the process of company's operation. These activities can be divided into three types: operating activity, financial activity and investing activity. In income statement, operating income and financial income are two main kinds of subtotals.

Operating revenues and operating costs and expenses are compared and giving the result: operating income/loss (EBIT, earnings before interest and taxes). Operating revenues refer to revenues from sale of products, goods, and services. Operating costs and expenses are costs associated with generating operating revenues, like raw material consumption, electricity consumption, depreciations, costs of goods sold, salaries and wages paid to employees, administrative costs and other operating costs.

$$EBIT = Operate\ Revenues\ - Operate\ Costs \tag{2.3}$$

Financial activities refer to the issuance and trading of some securities. Financial costs are mainly reflected in interests expense, coupons paid etc. And financial revenues come from interests received, dividends received, coupons received and so on.

The profit before taxes (EBT, earnings before tax) is the sum of operating income and financing income (EBIT less interest expenses). The law stipulates that once the company makes a profit, it must pay taxes, and the company´s tax (*T*) is calculated in the following formula

$$T = EBT \cdot t \tag{2.4}$$

where t is the corporate tax rate required by the corresponding law. After paying the tax, EBT becomes EAT (earnings after taxes), which is also called profit after tax or net income. Net income is the difference between all revenues and all costs and expenses minus corporate tax. If the sum of costs and expenses exceed revenues, company makes a loss.

Table 2.2: An example of income statement

Symbol	Item
NS	+Net revenue
C	-Costs of goods sold
C_o	-Other operating costs (sales, marketing, administrative, etc.)
OI	**=Operating income**
R_f	+Financial revenues
C_f	=Financial costs
FI	**=Pre-tax income**
t	-Income tax
NI	**Net income**

Source: Dluhošová et al. (2014, p. 54)

2.2.3. Cash flow statement

Cash flow statement records financial data of a period of time, not of a certain point.

"The cash flow statement is the source of cash to the firm from its activities and usage of these cash flows during a period. The cash flow statement explains the differences between beginning and ending balance of cash of a company, summarizes the information about cash inflows and cash outflows during a period." (Dluhošová et al., 2014, p. 55)

Cash inflows and outflows are summarized in three categories (with respect to activity they are associated with): operating activities, investing activities, financing activities. The sum of cash flows for these three activities represents company' s total cash flow. End balance of cash is equal to the beginning balance of cash plus net cash flow or minus net loss,

$$Net\ cash\ flow = Total\ Inflows - Total\ Outflows. \tag{2.5}$$

Table 2.3: An example of the Cash flow statement

Cash flow from operating activities
Income from continuing operations
Depreciation and amortization
Deferred income taxes
Decrease(increase) in accounts receivable
Increase in inventories
Increase in accrued liabilities
Cash flow from investing activities
Payments for property and equipment
Investment in international operations
Proceeds from the disposal of fixed assets
Other investing activities
Cash flow from financing activities
Dividends paid
Income tax paid
Interest paid

Source: Dluhošová et al. (2014, p. 57)

Of the three kinds of activities, operating activities represent the company's daily activities (routine activities). Cash inflows from operating activities can be cash sales to customers, cash collection from sales on trade credit, receipts of interest payments and so on. Correspondingly, cash outflows from operating activities are usually reflected in various payments. For example, the payments to employees for salaries and wages, the payments to suppliers of goods, production inputs and services and the taxes (payments to government agencies). The cash flow from investing activities mainly occurs after buying and selling long-term assets (tangible assets, intangible assets, financial investments). Like the cash used in the purchase or sale of plants, property, equipment, equity instruments and debt instruments of other entities. All cash inflows and outflows from financing activities come from transactions between company and its owners and creditors. Unlike investing activities, financing activities are activities in which the size of the company's capital and debt is changed through activities such as borrowing and issuing bonds or repaying loans and bonds. Other difference between investing and financing activities is that the assets involved in investing activities are usually held for a period of one year or more than one business cycle, but the assets involved in financing activities are not.

2.2.4. The connection

The connection between the balance sheet and the income statement

The end undistributed profit in the balance sheet minus the beginning should be equal to the undistributed profit item in the income statement. Because the balance sheet is a point-in-time statement, and the income statement is a period statement. Between two different points in time is a period of time. Undistributed profit means that the enterprise pays costs, earns income, pays taxes, and after paying interest, distributes the remaining profits to shareholders, and finally the remaining money, the economic effects of all activities of the enterprise must be reflected in the end Undistributed profits. And the connection of other items is mainly expressed in the connection in the statements, rather than the connection between each statement.

The connection between the balance sheet and cash flow statement

The connection between the balance sheet and the cash flow statement is mainly the balance sheet cash, bank deposits and other monetary funds and other items at the end of the period minus the beginning of the number, should be equal to the final cash and cash equivalent cash flow statement. The balance sheet is a point-in-time report, and the cash flow statement is a period report. The principle of the relationship between the tables is the same as above.

As for the income statement and cash flow statement, they are all period reports, which reflect some activities in a period, one is the profit in a period, the other is the cash flow in a period. Apart from the defined difference, there is no connection between them.

2.3 The methods of financial analysis

2.3.1. Common-size analysis

Common-size analysis is primarily through the study of financial statements data and their changes over the time to identify the trends and major differences. Common-size analysis can be performed by two methods: vertical analysis and horizontal analysis.

Horizontal Common-size Analysis

Horizontal common-size analysis is used in the review of a company´s financial statements over multiple periods. It is usually depicted as a percentage growth over the same line item in the base year. This analysis method uses the data of the first period as a basic data, and then compares the data of later period with the basic data. Therefore, relative changes are often used. The thesis use the tables and chart to give a simple example to explain the specific operation of the horizontal common-size analysis.

From Table 2.4 and Table 2.5, We can know the horizontal changes of each kind of assets. The total assets of the company increased by 400, the amount and proportion of long-term assets, current assets and other assets have also changed in different level. If the change during this period is growth, then the change is positive. If the change is a decrease, the change is negative. For example, the decrease in current assets under the premise of the increase in total assets means the company may have purchased a new plant or machine to expand its production scale.

Vertical Common-size Analysis

Vertical common-size analysis refers to the analysis of specific line items related to basic items within the same financial period. Each item will be calculated as a percentage of a base. The formula used in vertical common-size analysis is:

$$Percentage\ of\ base = \frac{Amount\ of\ individual\ item}{Amount\ of\ base\ item} \cdot 100. \qquad (2.6)$$

From Chart 1, we can know that the company's asset structure has changed significantly. A vertical common-size analysis of a company's balance sheet reveals the importance of each item to total assets or total equity.

The data in Table 2.5 is calculated according to Table 2.4, and the Chart 1 is based on the data in Table 2.5. We can conduct horizontal common-size analysis through changes in the relative value of assets and perform a vertical common-size analysis through the changes in the asset structure displayed by Chart 1. These changes can be explained when we analyze the statements of specific companies.

Table 2.4: Asset distribution in 2018 and 2019

ASSETS	2018		2019	
	Amount	Proportion	Amount	Proportion
Total assets	2000	100%	2400	100%
Long-term assets	1000	50%	1300	54.17%
Current assets	600	30%	500	20.83%
Other assets	400	20%	600	25%

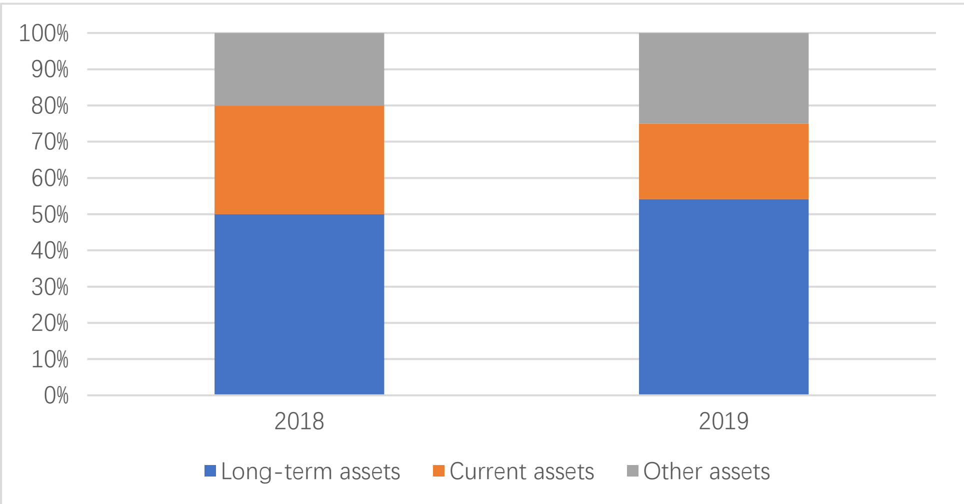
Source: own calculation

Table 2.5: Absolute changes and relative changes of assets from 2018 to2019

ASSETS	From 2018 to 2019	
	Absolute change	Relative change
Total assets	+400	+20%
Long-term assets	+300	+30%
Current assets	−100	−16.67%
Other assets	+200	+50%

Source: own calculation

Chart 2.1: Bar chart comparison of assets distribution from 2018 to 2019



Source: own calculation

2.3.2. Financial ratio analysis

Compared to common-size analysis, the financial ratio analysis to be introduced next will involve other commonly used and more specific financial ratios. In the thesis we uses four financial ratios: profitability ratio, liquidity ratio, solvency ratio and activity ratio.

Profitability ratio analysis

It analyzes the company´s ability to generate profit from invested capital in the form of return during a period (in percentage). The higher the profitability ratios, the better competitive position of the company in its industry. Almost all higher profitability ratios mean better for the company. Six types of basic ratios are introduced below. Three of these ratios are about profit margin, the other three are about return.

Gross profit margin (GPM) indicates the percentage of gross profit and sales revenue (or operating income). Here is the formula:

$$GPM = \frac{Gross\ Profit}{Rev}. \tag{2.7}$$

From the perspective of composition, gross profit is the difference between revenue and operating cost, but in fact this understanding reverses the concept of gross profit margin. In fact, gross profit margin reflects the part of a commodity that adds value after the internal system of production conversion. In other words, the more value added, the more gross profit. For example, through the differentiated design of products, some functions are added compared with competitors, and the increase in marginal price is positive, then the gross profit will increase.

The gross profit is the basis of the company's operating profit. To make a profit, the company must first obtain sufficient gross profit. Under other conditions unchanged, the gross profit and the gross profit rate are high, which means that the profit will increase.

Operating profit margin (OPM) measures operating profit per one unit of revenues and shows how well the revenues are being generated and operating costs controlled. Formula is given as:

$$OPM = \frac{EBIT}{Rev}, \tag{2.8}$$

where EBIT indicates earnings before interest and taxes, it can also be replaced by operating profit. Rev is the abbreviation of revenue. This ratio removes the impact of interest and tax, so it can directly reflect the company's product's profitability. The interest rate and tax rate are different in each period, which are greatly affected by the policy. The tax rates of different products in different industries are also different.

Net profit margin (NPM) measures net profit (as a percentage) per one unit of revenues. The higher net profit margin, the less cost and expense to obtain a given unit revenue.

$$NPM = \frac{EAT}{Rev} \tag{2.9}$$

EAT stands for earnings after taxes. The fact is that NPM is always lower than OPM in a same company. Net profit margin can actually reflect the company's profitability.

"Profitability analysis proceeds through four levels of depth. Level 1 involves measures of profitability for a firm as a whole: the rate of ROA and the rate of ROCE. Level 2 disaggregates ROA and ROCE into important components. ROA disaggregates into profit margin for ROA and assets turnover. ROCE disaggregates into profit margin for ROCE, assets turnover, and capital structure leverage components. Level 3 disaggregates the profit margin into various expense-to-sales percentages and disaggregates assets turnover into individual asset turnovers. Level 4 uses product and geographic segment data to study ROA, profit margin, and assets turnover more fully." Wahlen (2010, p. 307)

Return on assets (ROA) measures net profit (or operating profit) as a percentage for every unit of company´s assets. ROA is best used when comparing similar companies or comparing a company to its previous performance. ROA considers a company's debt, it is an indicator of how well a company utilizes its assets, by determining how profitable a company is relative to its total assets. It can be calculated as follows,

$$ROA = \frac{EBIT}{Assets}. \tag{2.10}$$

Return on equity (ROE) measures a firm's efficiency at generating profits from every unit of shareholders' equity,

$$ROE = \frac{EAT}{Equity}. \tag{2.11}$$

ROE considers the profits generated by shareholders 'equity, but ROCE (return on capital employed) is the main indicator of the company's efficiency in generating additional profits using all available capital. By replacing EBIT with net income in ROCE calculations, ROE can be analyzed more closely,

$$ROCE = \frac{EBIT}{CE}, \tag{2.12}$$

where CE means capital employed, which is equal to total assets minus current liabilities. "*When comparing the performance of companies in capital-intensive industries such as utilities and telecommunications, ROCE is particularly effective because, unlike other fundamentals, ROCE also considers debt and other liabilities. This provides better financial performance indicators for companies with significant debt.*"[3]

Liquidity ratio analysis

Liquidity ratios measure the company's ability to fulfill its long-term or short-term liabilities and obligations and compares the company's liquid assets and short-term liabilities and obligations. In the following thesis we introduce three ratios: current ratio, quick ratio and cash ratio.

Current ratio measures a company's ability to pay short-term obligations or those due within one year,

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}. \tag{2.13}$$

A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average may indicate a higher risk of distress or default. Similarly, if a company has a very high current ratio compared to their peer group, it indicates that management may not be using their assets efficiently.

Quick ratio is stronger test of company´s liquidity, because the inventory is removed from the current assets when it is calculated. Inventories are generally less liquid (must be first sold before any cash is collected). The formula of quick ratio is:

[3] Source: https://www.investopedia.com/terms/r/roce.asp

$$Quick\ Ratio = \frac{Current\ Assets - Inventories}{Currrent\ Liabilities} = \frac{Cash + Account\ Recivable}{CCurrent\ Liabilities}. \tag{2.14}$$

Cash ratio measures a company's liquidity. This metric calculates a company's ability to repay short-term debt with cash or near-cash resources (such as securities that are easy to sell).

$$Cash\ Ratio = \frac{Cash + Marketable\ Securities}{Current\ Liabilities} \tag{2.15}$$

These three ratios gradually increase the standard for measuring the company's liquidity. For the company's creditors, the higher the liquidity of the company's assets means the more secure their investment. However, for the development of the company itself, higher liquidity means that the company must hold more cash or "fast money". This situation sometimes makes the funds not used to the highest efficiency, which is not conducive to the company's progress. Every manager needs to make a trade-off between stabilizing the investor's confidence and ensuring the company's operating investment according to the company's situation.

Solvency ratio analysis

Solvency ratios, sometimes called financial leverage ratios, measure how the company is financed. This determines the company's ability to meet its long-term obligations.

"Solvency ratios are primarily of two types. Debt ratios, the first type, focus on the balance sheet and measure the amount of debt capital relative to equity capital. Coverage ratios, the second type, focus on the income statement and measure the ability of a company to cover its debt payments." Robinson (2015, p. 326)

In the following thesis, we introduce the mostly applied solvency ratios: debt ratio, debt-to-equity ratio, interest coverage.

Debt-to-assets ratio shows the percentage (proportion) of the company's assets financed by debt (liabilities). Because this is the most commonly used debt ratio, in many cases it is simply referred to as the debt ratio. Here is the formula:

$$Debt - to - assets = \frac{Total\ Debt}{Total\ Assets}. \tag{2.16}$$

For example, a debt-to-assets ratio of 50% or 0.5 indicates that 50 percent of the company's assets are financed with debt. Obviously, higher debt will bring higher financial risks, which also means that the solvency is weaker. For investors or shareholders, a higher debt-to-assets ratio may bring some benefits, such as pre-tax deduction of interest, control right of the company with less capital investment. Therefore, what the manager needs to do is to make full use of the borrowed funds to bring benefits to the company, while reducing financial risks as much as possible. The ratio of a company can be as high as possible under the premise of no debt repayment crisis, which is beneficial to the operation of the company. *"Generally, a ratio of 40 percent or lower is considered a good debt-to-asset ratio. A ratio above 0.6 is generally considered to be a poor ratio, since there's a risk that the business will not generate enough cash flow to service its debt. The company may struggle to borrow money if its debt-to-asset ratio percentage starts creeping towards 60 percent."*[4] Nevertheless, the level of ratio is not static, it depends on different perspectives, the perspective of creditors, investors (or shareholders) and managers will not be exactly the same. There are other considerations, such as whether the international and domestic economic environment is at its peak or at the bottom.

Debt-to-equity ratio relates the amount of the company´s debt relative to company´s equity, it is similar to debt-to-assets ratio. Here is its formula:

$$Debt - to - equity = \frac{Total\ Debt}{Equity}. \tag{2.17}$$

If debt-to-equity ratio is higher than 1, the company uses more debt for assets financing than equity. This is also the commonly used ratio, which is another form of debt-to-assets ratio.

Interest coverage is one of coverage ratios, it is calculated by this formula:

$$Interest\ Coverage = \frac{EBIT}{Interest\ Payments}. \tag{2.18}$$

Interest coverage shows the range to which the company´s operating profit is able to meet current interest payments. When the company needs a loan or to borrow money in other ways,

[4] Source: https://bizfluent.com/info-8057096-good-debt-asset-ratio.html

the company can according to the interest coverage to make a reasonable choice.

Leverage is an important tool to optimize the company's capital structure. If the amount of debt raised is large and exceeds the psychological tolerance of the creditors, the company will not be able to raise funds. Therefore, the manager hopes that the leverage will be slightly higher, so that they can expand the scale of production and the market, enhance the vitality of the company and obtain higher profits.

Activity ratio analysis

"Activity ratios are also known as asset utilization ratios or operating efficiency ratios. This category is intended to measure how well a company manages various activities, particularly how efficiently it manages its various assets. Activity ratios are analyzed as indicators of ongoing operational performance—how effectively assets are used by a company. These ratios reflect the efficient management of both working capital and long-term assets." (Robinson, 2015, p. 315)

Activity ratio is an indicator of continuous operational performance. These ratios can reflect the effectiveness of the management of working capital and long-term assets. Assets efficiency utilization has a direct impact on liquidity. The numerator in the activity ratios´ formula usually comes from the income statement, and the denominator is usually the data in the balance sheet. This is a typical example of combining two statements to analyze the company's financial situation, but because the income statement records the data during the period, and the balance sheet only shows the situation at the end of the period, it is usually consistent to use the average balance sheet data to maintain consistency. The text will introduce four basic activity ratios, including one type of period and three types of turnover.

Average collection period (ACP) indicates that how long a company takes to collect the company´s receivables. In other words, how long does it take to convert accounts receivable into cash. It is calculated by the following formula,

$$ACP = \frac{Accounts\ Receivable}{Rev} \cdot 360. \tag{2.19}$$

The shorter the ACP of accounts receivable, the stronger the liquidity of accounts receivable, the better for the company. The evaluation standard is based on the ACP specified in the company's credit sales conditions and the company's credit sales policy. If the actual collection period exceeds the company's specified collection period, it means that the capital operation efficiency is not high.

Accounts receivable turnover (ART) calculated how many times the accounts receivable are "rolled over" during a year. The ART is the ratio of sales revenue divided by the average receivables, which is the average number of times that the receivables are converted into cash during the year. It shows the speed of the flow of receivables. Here is the formula:

$$ART = \frac{Rev}{Accounts\ Receivable}. \tag{2.20}$$

It can be seen that ART and ACP are reciprocal to each other. Under normal circumstances, the higher the ART is better. The higher the ART, indicating that the collections are faster; the asset liquidity and the short-term debt repayment ability is stronger.

Inventory turnover (IT) is a measure of the number of times inventory is sold or used in a time period such as a year. Here is the formula:

$$IT = \frac{Cost\ of\ sales}{Average\ Inventory}. \tag{2.21}$$

For example, a company's cost of sales for a recent year was 120,000 and its average inventory was 10,000, the IT ratio would be 12. The company theoretically turns over its entire inventory 12 times per year (once a month). We say "theoretically" because a company will not actually sell out their entire inventory.

Total assets turnover (TAT) is an efficiency ratio which tells how successfully the company is using its assets to generate revenue. According to Robinson (2015, P319) *"the ratio also reflects strategic decisions by management—for example, the decision whether to* *use a more labor-intensive (and less capital-intensive) approach to its business or a more capital-intensive (and less labor-intensive) approach. When interpreting activity ratios, the analysts should examine not only the individual ratios but also the collection of relevant ratios to determine the overall efficiency of a company".*

$$TAT = \frac{Rev}{Total\ Assets} \tag{2.22}$$

If TAT is equal to 1.10, the company is generating 1.10 of revenues for every 1 of total assets. A higher TAT indicates greater efficiency of the company.3. Characteristics of selected company

Weibo Corporation is a subsidiary of Sina. Beijing Weimeng Chuangke Network Technology Co., Ltd. is an independent registered company of Weibo Corporation. It was established on August 9, 2010 and registered in Haidian District, Beijing on October 11, 2010. In March 2014, Sina Weibo was officially renamed Weibo.

On April 17, 2014, Weibo Corporation successfully landed on Nasdaq, becoming the first Chinese social media listed in the world with the trading code WB. Sina issued a total of 16.8 million shares of ADS, financing 285.6 million US dollars, with a total market value of 3.46 billion US dollars.

3.1. General information of selected company

Weibo is a Chinese microblogging website. Launched by Sina Corporation on 14 August 2009, it is one of the biggest social media platforms in China. *"Weibo's platform is compatible with all major mobile operating systems, including Android, iOS, Symbian, Windows and Blackberry, and is accessible through mobile apps, mobile websites, personal computer apps and personal computer websites. Weibo's users range from ordinary people to celebrities, businesses, government agencies and other organizations."* [6] Weibo 's status in China is equivalent to Twitter's status in the world.

The company has two business departments: advertising and marketing department and other-services department. The total revenue of Weibo Corporation is from advertising and

[6] Source: http://ir.weibo.com/products-and-services

marketing, value-added service. According to the latest records, from January 1, 2019 to June 30, 2019, revenue from advertising and marketing was $712 million, or 85.65%, and revenue from value-added services was $119 million, or 14.35%. The total share capital is 225 million shares. The main shareholders include Sina Corporation., which holds 44.9% of the shares, Ali WB Investment Holding Limited, which holds 30%. The remaining 25.1% shares are held by other companies and retail investors.

3.1.1. Business areas

Weibo as a social media website, its main business areas are distributed in advertising and marketing and value-added services. Obviously, advertising and marketing refer to activities in which enterprises promote products through advertisements, promote direct purchase by consumers, expand sales of products, and increase the visibility, reputation and influence of enterprises. In this area, Weibo can make a profit through precision advertising, social games, real-time search, e-commerce and so on. Value-added services literally mean services that exceed the scope of conventional services provided to customers based on their needs. On Weibo platform, for example, value-added service income comes from membership purchasing, digital content charging, etc.

Table 3.1 : Revenue distribution of Weibo from 2015 to 2019 (in thousands of USD)

Revenue:	2015	2016	2017	2018	2019
Advertising and marketing revenues					
Third parties	207,657	428,275	780,545	1,172,136	1,202,437
Alibaba	143,650	57,908	84,688	117,696	97,772
SINA and other related parties	51,108	84,799	131,512	209,348	230,002
	402,415	570,982	996,745	1,499,180	1,530,211
Value-added services revenues	75,476	84,818	153,309	219,338	236,703
Total revenues	477,891	655,800	1,150,054	1,718,518	1,766,914

Source: own elaboration based on company's financial statements

3.1.2. Development course (vertical comparison)

Background

Throughout the development of microblogging in the world, its birth background can be traced back to the rise of the concept of Web2.0 in the wave of information globalization. With the warming of Web2.0 products in the global Internet, microblogging emerged as a "mini blog". Microblogging was not promoted in the early days of its birth. It was not until Obvious officially launched Twitter that microblogging began to show its network value and became a milestone in the development of microblogging worldwide. Twitter was born in 2006. As the most influential microblogging at that time, Twitter's rapid popularity led to the development of microblogging in China. In 2007, local Chinese microblog service providers began to appear, and microblogs entered China mainland area. In May 2007, Fanfou.com, the first microblogging product in China mainland area, was born. The founder of Fanfou.com is Wang Xing. The launch of Fanfou has become a symbol of microblogging's entry into China.

Preliminary Development and Rapid Rise (2007 - 2011)

Fanfou is the predecessor of Weibo. The apperance of Fanfou started the development of microblogging in China. In August 2007, Tencent launched the public beta of microblogging Taotao, which can be regarded as the first portal site in China to try microblogging products. On July 8, 2009, the Fanfou server was shut down, and the earliest microblogging products in the Chinese market, such as Jiwai, also ceased operations.

In July 2009, Sina announced its decision to make the product “Weibo”, which was developed by Peng Shaobin, the director of the desktop product division at the time. On August 14, 2009, taking only 2 months, Sina Weibo began internal calculations. At the time, Sina Weibo adopted the same promotion strategy as the Sina blog, that is, it invited stars and celebrities to settle in, and carried out real-name authentication. After the authentication, the letter "V" was added to the user's name to highlight the identity. Driven by the celebrity effect to achieve the growth of early users.

From 2010 to 2011, Sina Weibo was in the limelight. In terms of product functions, Sina Weibo is also in constant action. In April 2011, the number of registered users of Sina Weibo exceeded 100 million, and Sina's stock price also benefited. As of April 5, Sina's stock price rose to $ 116.56, with a market value of $ 7.11 billion.

Glorious Period (2011-2013)

The Sina Weibo financial report in February 2013 showed that its total revenue was about US $ 66 million, and the number of registered users exceeded 500 million. In April 2013, Sina officially announced that Sina Weibo and Alibaba signed a strategic cooperation agreement. The two parties have conducted in-depth cooperation in the areas of user account exchange, data exchange, online payment, and online marketing. At the same time, Alibaba announced that through its wholly owned subsidiary, it will purchase preferred shares and common shares issued by Sina Weibo for US $ 586 million, accounting for about 18% of Sina Weibo's diluted shares.

From 2014 to now

On March 27, 2014, Sina Weibo officially announced its name change to "Weibo" and launched a new logo. The name change of Sina Weibo to Weibo is mainly to dilute the impression of "Sina" and to highlight its independence as a social platform company, which also helps to get investors' recognition.

According to the "Wall Street Journal" report, on the morning of April 17, 2014 (local time), the renamed Weibo officially landed on the US Nasdaq Stock Exchange. Weibo rose 19% on the first day of listing and closed at US $ 20.24, with a market value of US $ 4 billion.

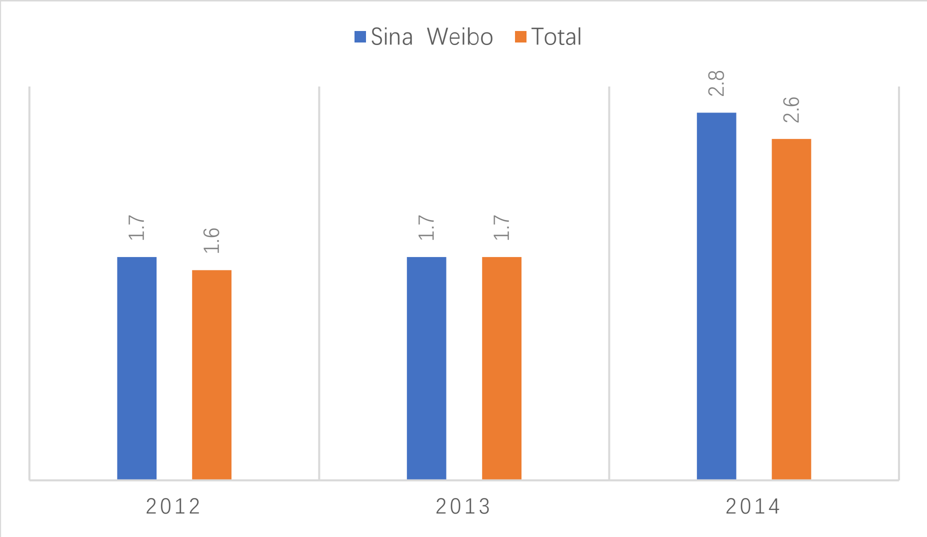
However, according to the 33rd "Statistical Report on the Development of China's Internet Network" released by the China Internet Network Information Center (CNNIC) in Beijing, the number of Weibo users and the duration of use both declined significantly in 2013 Specifically, in 2013, 22.8% of netizens reduced the use of Weibo, while the use time of Weibo products only increased by 12.7%. On the mobile phone side, the number of netizens using Weibo has also shown a downward trend, and the popularity of use is also declining. As of December 2013, the number of Chinese mobile microblog users was 196 million, a decrease of 5.96 million from the end of 2012. At the same time, the utilization rate of mobile microblogs was only 39.3%, a decrease of 8.9 percentage points from the end of 2012. There are two reasons for the loss of Weibo users. One is internal product reasons. The second is external competition., which will be explained in the next subchapter "peer comparison".

3.1.3. Peer comparison (horizontal comparison)

In China, not only Sina has launched Weibo, Tencent, NetEase, Sohu have also launched "Weibo", these three companies are also relatively large websites in China. Sina Weibo, Tencent Weibo, NetEase Weibo and Sohu Weibo were the four largest portals in China at the time.

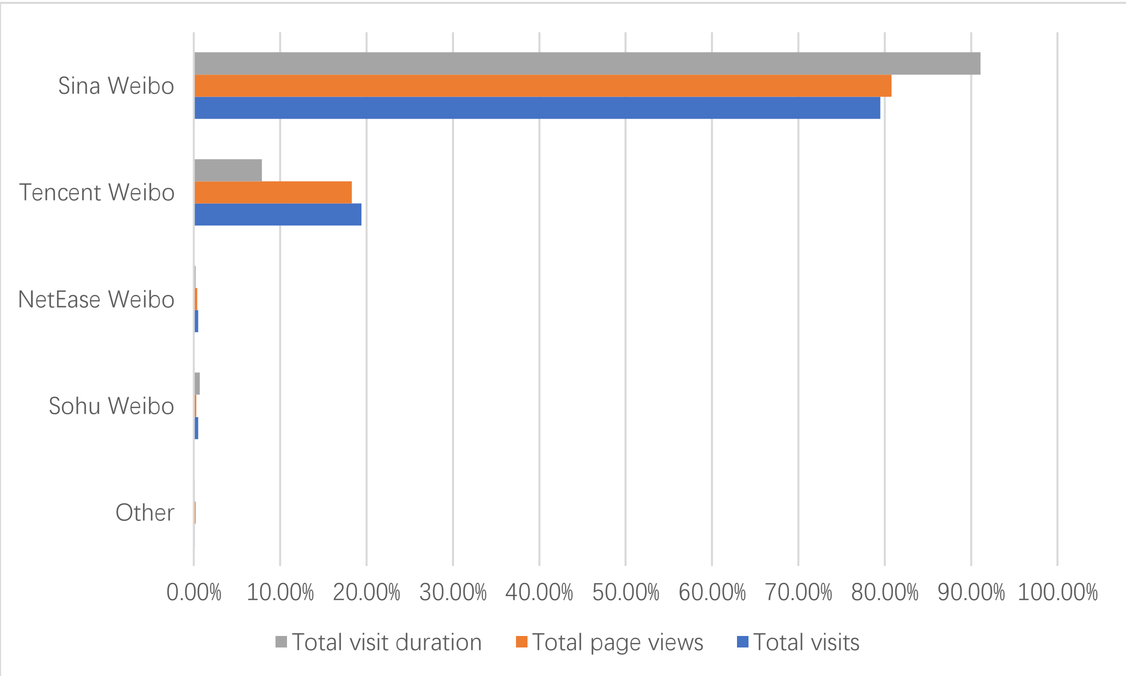
According to the statistics of the 31st, 33rd and 35th statistical surveys on the development of the Internet in CNNIC, the number of Sina Weibo users has been rising steadily, and the utilization rate of other microblog brands has gradually declined, reflecting the concentration of the microblog market trend.

Chart 3.1: Number of daily visits per capita on microblog from 2012 to 2014



Source: CNNIC http://www.cnidp.com/

Chart 3.2: China's microblog monitoring data in 2014



Source: CNNIC http://www.cnidp.com/

According to chart 3.1 and chart 3.2, Sina Weibo's users are much more active and sticky than other Weibo's users, in terms of daily visits per capita, total visits, page views and total visit duration. It can also be seen as evidence of the centralization of the microblog market to Sina Weibo. And from chart 3.2, we find that Tencent Weibo can be said to be the only one that can compete with Sina Weibo. Therefore, the following thesis will briefly introduce the competition history of Sina Weibo and Tencent Weibo in just four years.

It is worth mentioning that Internet companies such as NetEase, Sohu, Tencent and others only launched their own Weibo products after the establishment of Sina Weibo in August 2009. For products with serious homogeneity like microblogging platforms, it is difficult to catch up with the market after entering the market a few months later than others. Hence, many Weibo products failed in short time, leaving only Sina Weibo with media genetic attributes and Tencent Weibo with social genetic attributes.

Microblog itself has strong media attributes and uses “point-to-area” spread. Sina started from a portal website, and marketing has also done well. Tencent started with QQ. However, QQ is a “peer-to-peer” (point to point) social tool with a wider user base, but it also impacts the accuracy and authority of information dissemination. Relying on its old skills, Sina knows how to do better as a media platform in content operations.

And at the time, Sina devoted a lot of effort to the Weibo in order to boost Sina's stock price. In fact, the reason why Tencent Weibo was founded was that Ma Huateng, the founder, chairman and chief executive officer of Tencent, saw that Sina Weibo directly threatened the existence of the QQ social overlord. At that time, many people chatted through Weibo private messages. Therefore, the strategy of Tencent Weibo is not like an expansion behavior, but more like a defensive behavior. Actually, Ma Huateng is afraid that Tencent's core competitiveness, that is, the social relationship chain, will be taken away by Sina.

But after the launch of WeChat, WeChat grew to be larger than Sina Weibo, and even almost messed up Sina Weibo. There is no doubt that WeChat is a more phenomenal product than Weibo. Tencent's core competitiveness has not been shaken on the mobile Internet, and the purpose has obviously been achieved. In July 2014, Tencent's Weibo business department has been revoked, which is almost officially announced that Tencent's Weibo has been strategically abandoned. As an expected result, in July 2014, Tencent's Weibo business department was revoked. This is almost an announcement that Tencent's Weibo has been strategically abandoned. Since then, the Sina Weibo has become the largest and the only microblogging platform in China.

With the development of Sina Weibo, it involves more and more industrial fields. Some other online platforms that do not belong to “Weibo” and Sina Weibo still have competition in some small areas. The impact of these competitions will be specifically analyzed in the next part of the prospect analysis.

3.2. Prospect analysis of selected company

Since August 14th, 2009, Sina Weibo started internal testing. Weibo has gone through ten years, almost eleven years now.

According to the fourth quarter and full year financial report released by Weibo on December 31, 2019, Weibo's revenue and net profit both declined year-on-year in the fourth quarter of 2019. After the financial report was released, Weibo's stock price plunged more than 14%. According to financial report data, Weibo's total revenue for Q4 was 468.1 million USD, down 2.9% from 481.9 million USD in the same period last year; it was basically the same as 467.8 million USD in the previous quarter. Judging from Weibo's financial data from 2015 to 2019, this is Weibo's first quarterly revenue decline since 2015.

Weibo, which has existed for ten years, is "old age" in social products. In addition to ensuring the original benefits in the fierce competition in the same industry, a social product must maintain the vitality of the product at all times. The two are indispensable, otherwise it will be subverted or replaced by other products, or slowly abandoned by users. Weibo is facing a big challenge, both internal and external.

Weibo's entertainment ecosystem is unique and difficult to replicate. The content layout in the pan-entertainment field accumulated under the snowball effect over the years has perfected its chain and has large and comprehensive entertainment functions, which is difficult for other platforms to surpass. However, with the rise of the online celebrity e-commerce model, the economic effects that the vertical sector can bring are increasingly valued by various advertisers. We said earlier that the main revenue of Weibo is advertising and marketing revenue. All kinds of new platforms or existing platforms have begun to establish new communities to seize users, and they are deeply cultivating in their own vertical fields to break through. To make an analogy, each advertiser is like a teacher in various subjects who hold the power to grade, and Weibo is like an excellent student who can get 70 to 80 points in every subject. Other emerging platforms are like partial students who fail to pass other subjects but can take 90 points or even full marks in certain subjects. Of course, the overall score of Weibo is leading, but the advertisers of each subjects will naturally assign a lot of preferences to the best ones in each target subjects. These emerging platforms have slowly taken away some advertisers from Weibo like this analogy by building products that are proficient in some specialized areas. For example, there are several major categories of Weibo advertising revenue sources: beauty makeup, delicious food, fashion good and so on. In China, there is an application called Xiaohongshu that shares beauty and makeup as a mainstream platform. More and more beauty and makeup products are advertised on Xiaohongshu. Similarly, Dianping is an app dedicated to collecting and introducing food. TikTok is an application mainly based on short videos. In China, TikTok can easily bring a trend of fashion, so it is especially favored by advertisers.

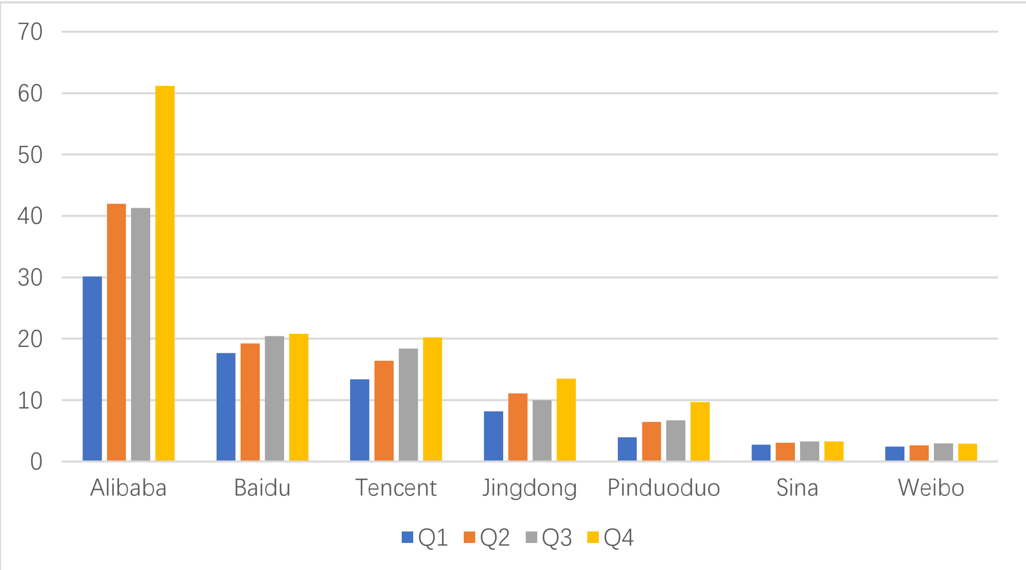
Table 3.2: Ranking of Chinese Internet companies' advertising revenue in 2019 (billion, CNY)

	Company	Q1	Q2	Q3	Q4	2019	2018	YoY growth
1	Alibaba	30.119	41.954	41.301	61.2	175.474	138.393	26.14%
2	Baidu	17.657	19.237	20.406	20.8	78.1	81.9	-4.64%
3	Tencent	13.4	16.409	18.366	20.202	68.377	58.079	17.73%
4	Jingdong	8.144	11.077	9.986	13.473	42.68	33.521	27.32%
5	Pinduoduo	3.948	6.467	6.711	9.688	26.814	11.5356	132.45%
6	Sina	2.748	3.071	3.24	3.264	12.323	12	2.69%
7	Weibo	2.416	2.626	2.922	2.875	10.839	10.126	7.04%

Source: http://edu.teamtop.com/13324.html

"Since TikTok is not yet IPO, there is no corresponding financial report disclosed, but according to market estimates at the time, it is expected that the overall revenue of TikTok in 2019 will be between 150 billion and 200 billion."[7]

Chart 3.3: Advertising revenue for the top seven Chinese Internet companies in 2019



Source: Own calculation from Table 3.2

[7] Source: http://edu.teamtop.com/13324.html

As can be seen from Figure 3.3, Weibo's advertising revenue and Sina fluctuated synchronously, and both remained stable for four quarter. This means that Sina's other portal businesses have little revenue from advertising revenue except Weibo. Alibaba, JD.com and Pinduoduo in the first seven middle schools are mainly e-commerce platform companies and Tencent, an integrated Internet company and search engine Baidu. They are not the same type of companies as Weibo. In addition to Tencent's WeChat and Weibo have greater competition, Weibo can also be said to be an industry giant in terms of advertising revenue. But many companies competing with Weibo for advertising resources in their respective fields have not yet made their IPOs for the first time. For example, TikTok, its advertising revenue is much higher than that of Weibo. Coupled with more and more detailed market segmentation and subsequent diversion, the competition faced by Weibo will become increasingly fierce. Although it is impossible to find a product that completely replaces Weibo, there are indeed many products that can disassemble the function of Weibo.

Although the external competition is fierce, the internal worries brought about by the stagnation of its own business growth directly affect the confidence of investors. Short-term investment depends on data, and long-term investment depends on potential. The slowdown in revenue growth is only an external incentive, and the internal revenue structure is the key to investors' lack of confidence.

From the perspective of revenue structure, Weibo's revenue is mainly divided into two parts: advertising and marketing and value-added services. Regarding the advertising and marketing revenue, we have already discussed in earlier part about the external competition. From table 3.3 and table 3.4, we can find that the relative changes in value-added service revenue have been decreasing since 2017 and the decrease has been the largest in 2019.

Table 3.3: Value-added services revenues of Weibo from 2015 to 2019

	2015	2016	2017	2018	2019
Value-added services revenues	75,476	84,818	153,309	219,338	236,703

Source: Weibo's income statements from 2015 to 2019

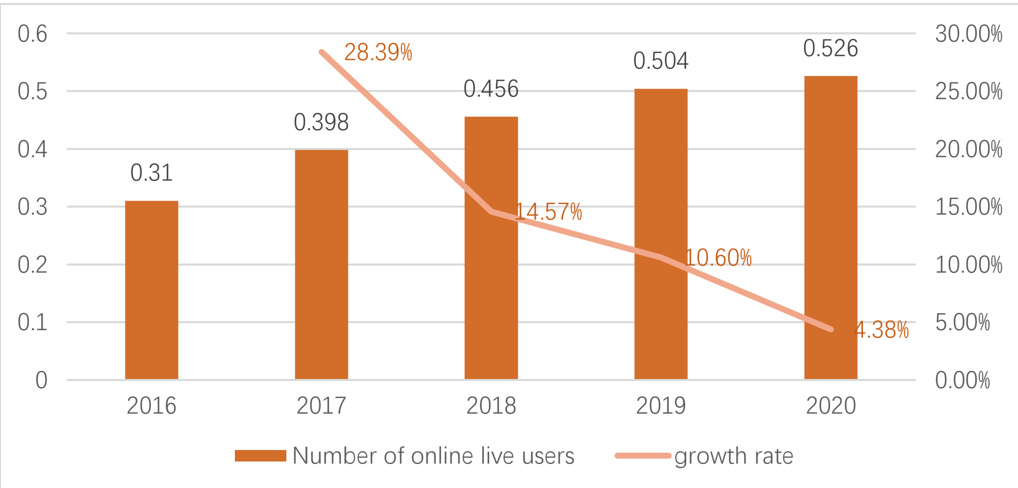
Table 3.4: Relative change of value-added services revenues of Weibo from 2015 to 2019

	2016/2015	2017/2016	2018/2017	2019/2018
relative change	12.38%	80.75%	43.07%	7.92%

Source: Own calculation from Table 3.3

The value-added service revenue includes membership and live broadcast services, accounting for about 13.4% in 2019. Over the past five years, the value-added service revenue has gradually decreased. According to the chart below, we can find that the number of live broadcasts is about to reach saturation, which is more than 500 million. Today, the Internet demographic dividend is no longer, the incremental pool is divided into multiple parts, Weibo must find a new method of breaking the circle on the basis of not damaging the user experience.

Chart 3.4: User scale and its Forecast of China Online Live Streaming Market (billion people)



Source: data.iimedia.cn/

After the annual financial report was released on February 6, 2020, Weibo CEO Wang Gaofei stated that *"2020 will continue to improve the platform ecosystem, further strengthen core competitiveness, and commercialize, while continuing to help advertisers enhance the value of Weibo marketing Expand the diversified monetization model to achieve sustainable growth in the future."*[8] If these are really realized, the revenue of live broadcasting will rise, and the revenue of the entire value-added service will increase.

The CEO of Weibo also said that the newborn of Weibo needs to emphasize the importance of private domain traffic. In short, when the external growth rate slows down, to maintain revenue, it is necessary to dig inwards to find the largest space that can be excavated and realized.

The division of public domain traffic and private domain traffic: the former includes popular streams, hot searches, video recommendations, etc. The core is to obtain accurate traffic. The latter includes the main feed, personal homepage, super talk, fan group, etc. The core lies in fan interaction and monetization. The fourth quarter of 2019 and the annual financial report data show that as of the end of 2019, Weibo monthly active users reached 516 million. This shows that there is a lot of room for mining in the private domain traffic pool of Weibo. To mining private domain traffic is to say that it is to create a more lively community and improve user stickiness and monetization.

[8] Source: http://ir.weibo.com/

4. Financial analysis of selected company

In this chapter, we apply various analysis methods introduced in Chapter 2 to analyze Weibo's financial statements from 2015 to 2019. All the data are from financial statements in annexes and all the data units are in thousands of USD except for par value. In addition, we will use charts to show trends in Weibo 's finances and try to give reasons for this situation.

4.1. Common-size analysis of selected company

In the following thesis, we will analyze the balance sheet and income statement horizontally and vertically, and only make a horizontal common-size analysis of the cash flow statement. In the horizontal common-size analysis part, we will use last year as the base year for calculation. In the vertical common-size analysis of the balance sheet, we take total assets, equity budgets and liabilities as the benchmark, and in the vertical general size analysis of the income statement, we take the revenue and cost as the benchmark.

4.1.1. Common-size analysis of balance sheet (horizontal, vertical)

In this section, the data of the balance sheet will be analyzed by horizontal and vertical methods and explained by tables and percent stacked column charts.

Table 4.1: Absolute change of each items in Weibo's balance sheet

	2016/2015	2017/2016	2018/2017	2019/2018
Current assets	98,833	1,451,135	420,726	1,167,080
Long-Term Assets	98,922	73,740	292,137	362,424
Total Assets	197,755	1,524,875	712,863	1,529,504
Current Liabilities	69,328	206,773	144,968	170,961
Non-current liabilities	-902	880,666	14,551	824,862
Total Liabilities	68,426	1,087,439	159,519	995,823
Total Equity	129,329	437,436	553,344	533,681
Total liabilities & equity	197,755	1,524,875	712,863	1,529,504

Source: Own calculation

Table 4.2: Relative changes of each items in Weibo's balance sheet

	2016/2015	2017/2016	2018/2017	2019/2018
Current Assets	19.83%	242.97%	20.54%	47.27%
Long-Term Assets	29.03%	16.77%	56.90%	44.99%
Total Assets	23.57%	147.05%	27.83%	46.71%
Current Liabilities	33.21%	74.35%	29.90%	27.14%
Non-current liabilities	-37.82%	59384.09%	1.65%	91.99%
Total Liabilities	32.40%	388.95%	11.67%	65.23%
Total Equity	20.59%	57.76%	46.31%	30.53%
Total liabilities & equity	23.57%	147.05%	27.83%	46.71%

Source: Own calculation

As we can see from the table 4.1, the absolute change of total assets are positive from 2015 to 2019, which means that Weibo's total assets have been growing in the past five years. Then we can see where the specific growth is from table 4.1. In 2016, the growth of current assets and long-term assets was basically the same. From 2017, the growth of current assets is several times that of long-term assets. And more detailly, items such as cash and cash equivalents and short-term investments grows a lot. It shows the liquid of assets increased every year. Similarly, the relative changes in each item we saw in table 4.2 can also reflect the continued growth of Weibo's assets since 2015.

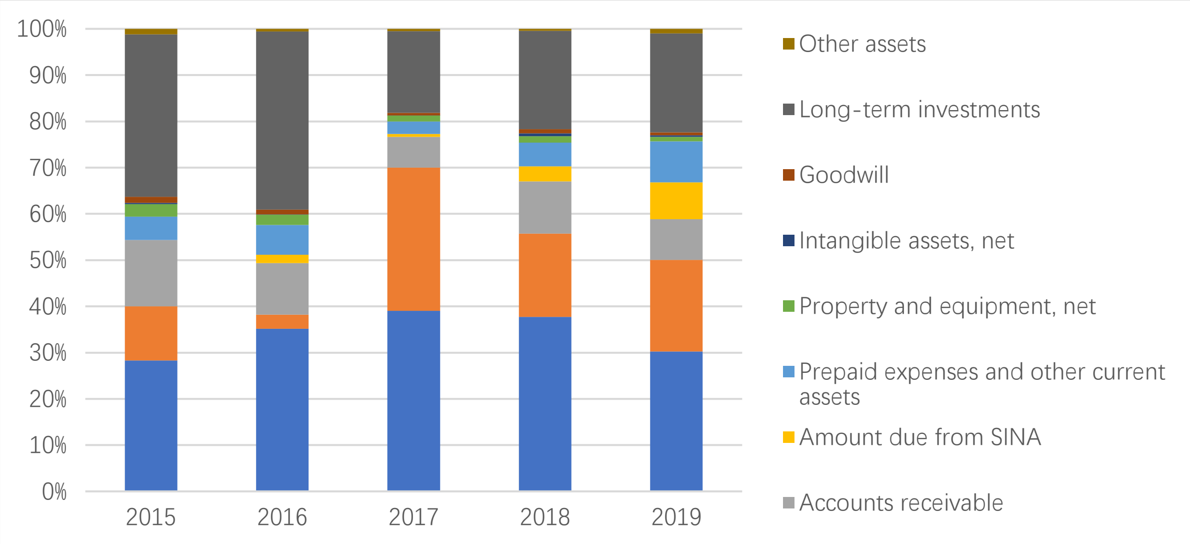
Next, let's observe the situation of Weibo's liabilities. Total liabilities have been increasing over time, too. From the two tables of absolute change and relative change, we can find that Weibo borrowed a large amount of non-current liabilities in 2017. Since then, current liabilities and non-current liabilities have been increasing, but the company's debt leverage has not been fixedly converted into current liabilities or non-current liabilities. As for total equity, it is increasing at a relatively large growth rate. Comparing the growth rate of total assets and total equity in the past five years, only the growth rate of equity in 2018 is higher than total assets, indicating that the financial strength of Weibo has increased relatively in 2018. While the growth of assets in other years is more dependent on external debt.

Table 4.3: Vertical common-size analysis of assets of balance sheet

	2015	2016	2017	2018	2019
Current assets	59.39%	57.60%	79.96%	75.40%	75.69%
Long-Term Assets	40.61%	42.40%	20.04%	24.60%	24.31%
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Own calculation

Chart 4.1: Vertical common-size analysis for assets of balance sheet



Source: Own elaboration

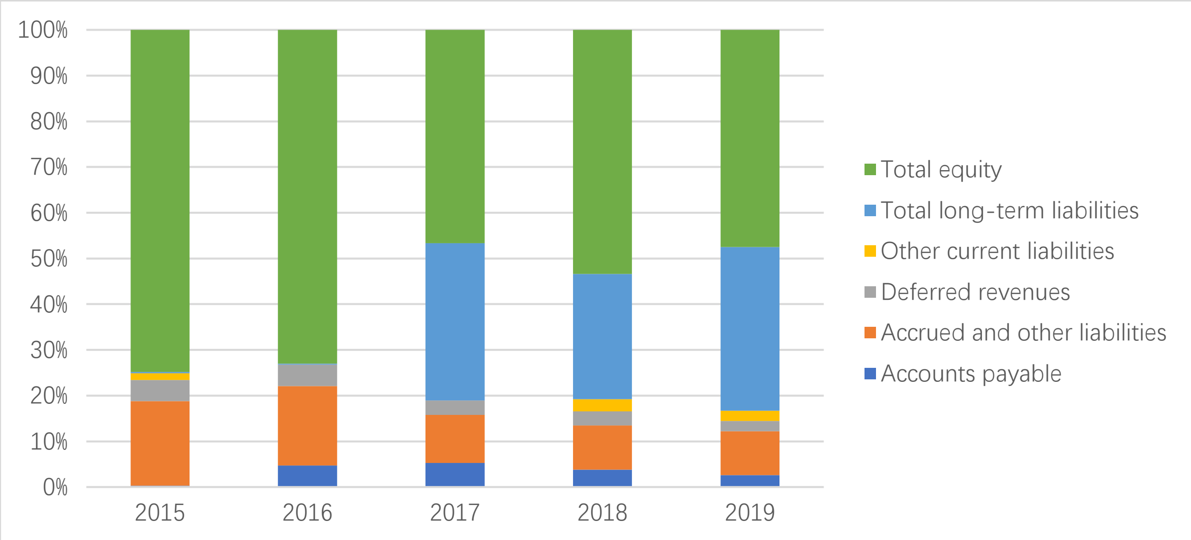
Through the data of table 4.3, we can find that current assets are a bigger part of the total assets, and the percentage has always exceeded 50% every year. Through chart 4.2, we know the proportion of current assets reached a peak in 2017. Among current assets, cash and cash equivalents are the project with large proportion all the years. In 2015 and 2016, long-term investment accounted for a larger proportion than short-term investment. However, from 2017, short-term investment gradually took away the proportion of long-term investment. This reflects the growing scale of Weibo's operations and the need for more and more liquidity since 2017.

Table 4.4: Vertical common-size analysis for liabilities and equity of balance sheet

	2015	2016	2017	2018	2019
Total current Liabilities	24.88%	26.82%	18.93%	19.23%	16.67%
Total long-term liabilities	0.28%	0.14%	34.43%	27.38%	35.83%
Total equity	74.84%	73.04%	46.64%	53.38%	47.50%
Total liabilities & equity	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Own calculation

Chart 4.2: Vertical common-size analysis for liabilities and equity of balance sheet



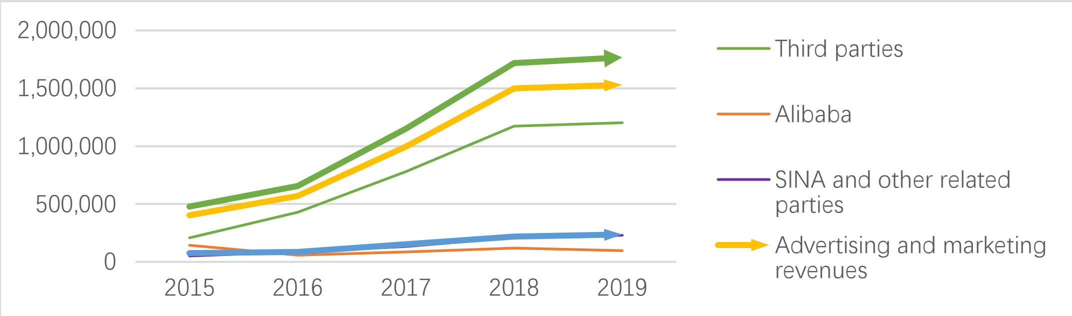
Source: Own elaboration

From table 4.4 and chart 4.2, we can find that the liabilities and equity situation changed in 2017 as well. One of the most obvious changes is the increase in long-term liabilities since 2017. Subsequently, the total equity gradually decreases. It shows that the managers made a financial decision to increase leverage in 2017.

4.1.2. Common-size analysis of income statement (horizontal, vertical)

In this section, the data of the income statement will be analyzed by horizontal and vertical methods and explained by line and percent stacked column charts. In this part, we only compare the content and change trend of total revenue and total cost and expense separately. Other items in the income statement, such as net income, EBIT and EAT, will be analyzed in detail using the financial ratios in section 4.2.

Chart 4.3: Horizontal common-size analysis of income statement (Revenues)

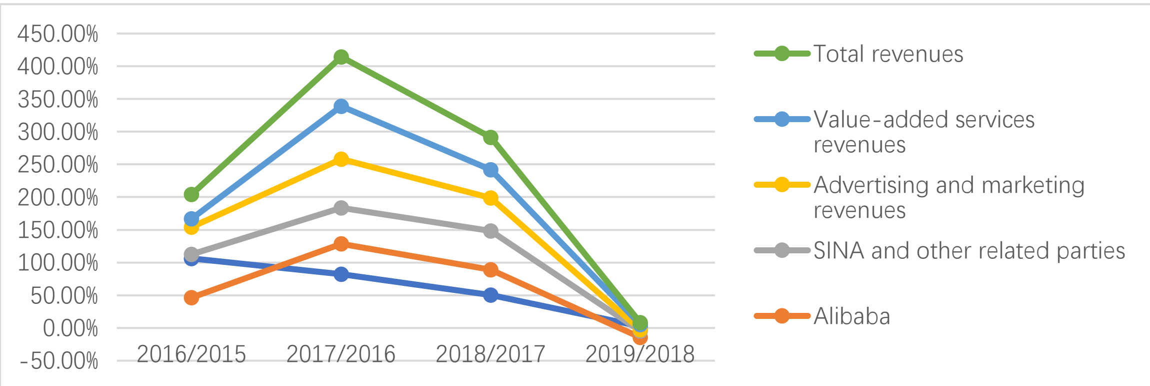


Source: Weibo's income statements from 2015 to 2019

As an Internet company, Weibo has a relatively simple source of income, which is only divided into two parts: advertising & marketing and value-added services. The sources of advertising and marketing revenue are also divided into three main subjects: Sina, Alibaba and third parties. Chart 4.3 shows that the revenue from Sina and Alibaba is very stable over the past year, the growth of total advertising and marketing revenue mainly depends on third parties.

As mentioned in Chapter 3, for Weibo, its value-added services are mainly membership and live broadcast services. However, from the line of chart 4.3, the revenue of value-added services is similar to the advertising revenue from Sina and Alibaba, there is no big growth.

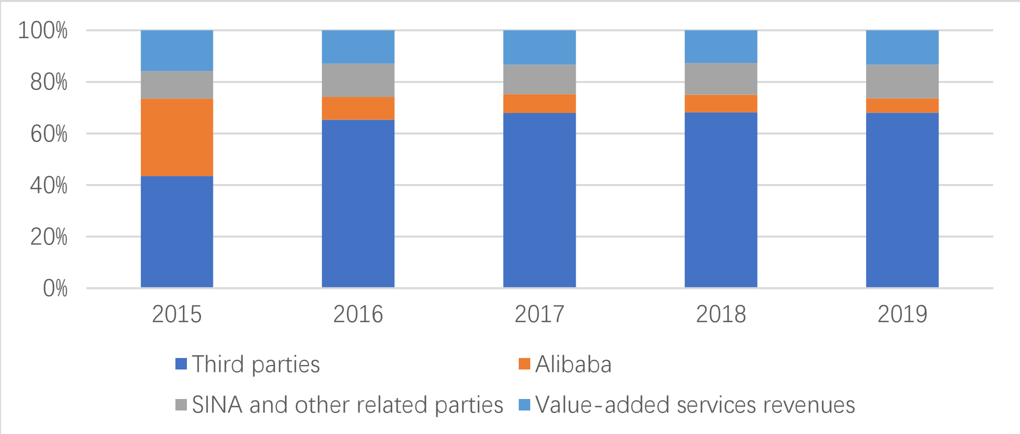
Chart 4.4: Relative change of Revenues items in Weibo's income statement



Source: Own elaboration based on Weibo's income statements from 2015 to 2019

From the relative changes of various income items shown in chart 4.4, the overall growth of Weibo's revenue is gradually slowing down. There was even negative growth of revenue from Alibaba in 2019. The problem of monotonous sources of Weibo’s revenue growth mentioned in the previous paragraph is also the reason for the stagnation of Weibo’s revenue growth or even negative growth.

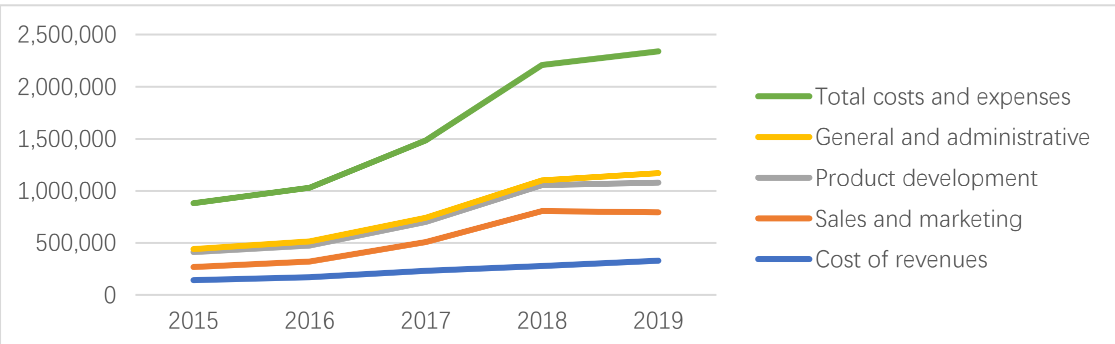
Chart 4.5: Vertical common-size analysis of Revenues



Source: Own elaboration based on Weibo’s income statements from 2015 to 2019

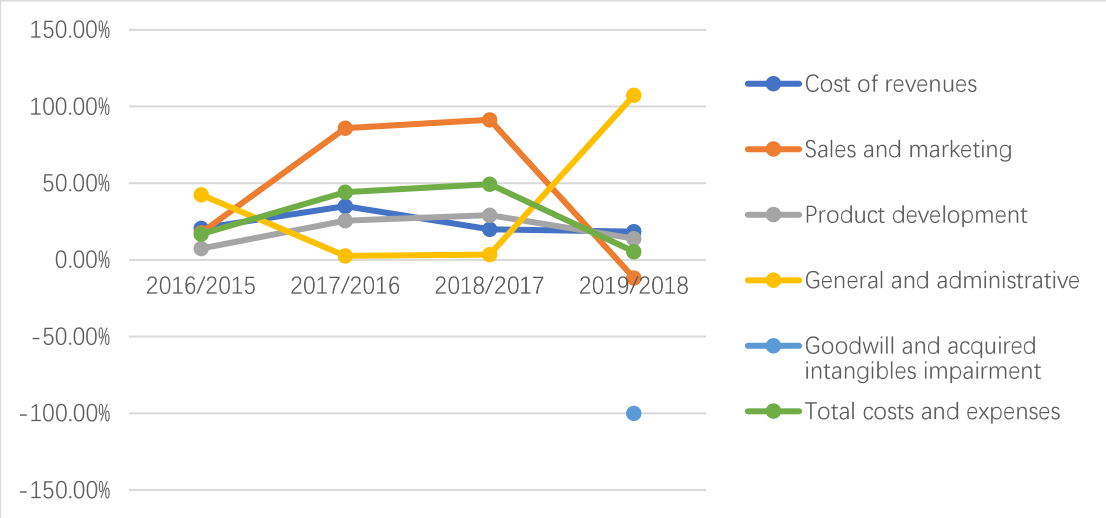
From chart 4.5, the proportion of various revenue is basically stable, except that Alibaba has reduced the proportion of advertising investment since 2016. Structural stability is beneficial, but there are also potential threats. Because the COVID-19 reduces the chance of going out, people spend more time online. This situation can bring more or less benefits to Weibo, but it cannot cover its most serious problem. It needs to improve product performance and enrich the revenue structure.

Chart 4.6: Horizontal common-size analysis of Cost and Expense



Source: Own elaboration based on Weibo’s income statements from 2015 to 2019

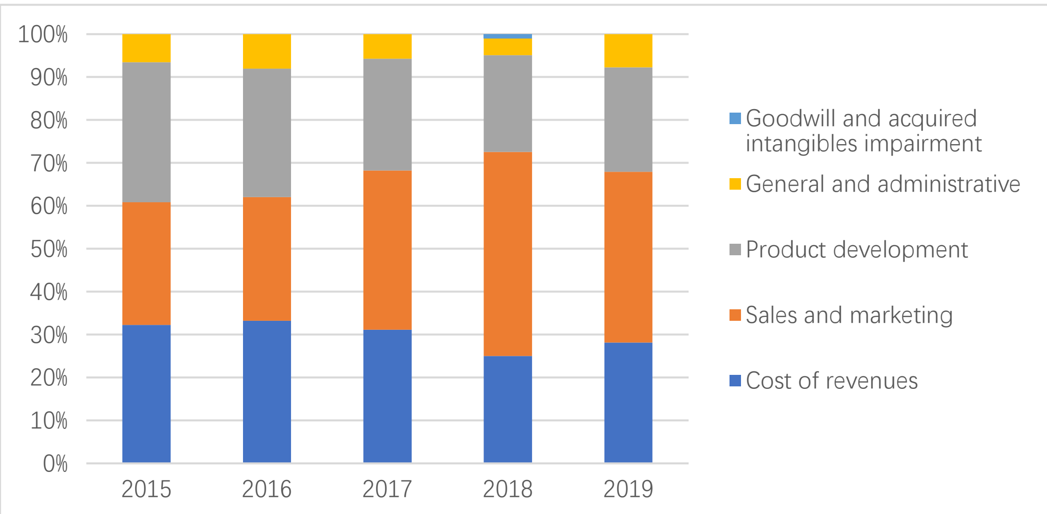
Chart 4.7: Relative change of Cost and Expense of Weibo from 2015 to 2019



Source: Own elaboration based on Weibo's income statements from 2015 to 2019

According to chart 4.6, it is not difficult to find that the increase in total costs in recent 5 years is basically synchronized with the increase in revenue. From chart 4.6, general administrative and product development are relatively large proportion. From 2018 to 2019, the relative change in general and administrative costs has increased, but the increase in product development costs has been declining. Weibo spent 10,554,000 USD for Goodwill and acquired intangibles impairment in 2018. These situations all reflect that Weibo has little room for growth and the development of Weibo in 2019 encountered a bottleneck period.

Chart 4.8: Vertical common-size analysis of Cost and Expense



Source: Own elaboration based on Weibo's income statements from 2015 to 2019

From chart 4.8, the proportion of various revenue is basically stable as well. It can be seen obviously that the cost of revenues and sales and marketing expenses for the majority of the company's expenses, remaining above 70% from 2015 to 2019. In addition, product development expense is also an important part of the company's costs, keeping the proportion at around 20%. Although Weibo encountered a crisis of public opinion in 2018 and therefore increased its cost of sales, it still did not reduce the proportion of product development expenses in 2019, reflecting the company's management still insisting on innovation.

4.1.3. Common-size analysis of cash flow statement (horizontal)

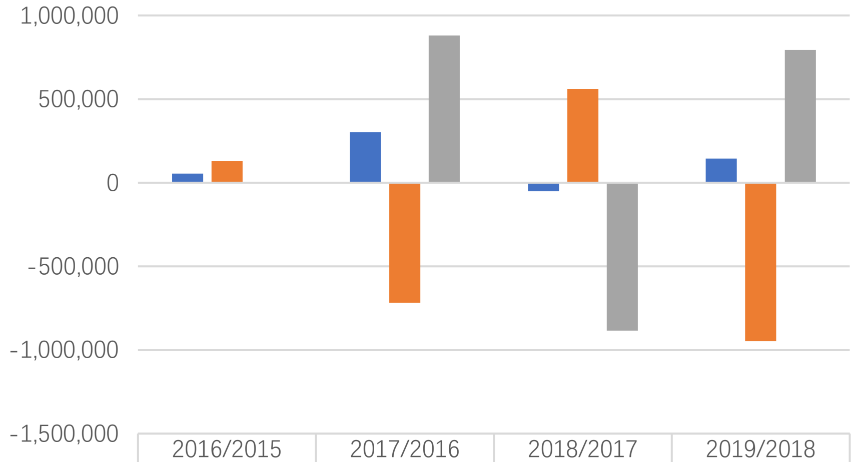
Table 4.5: Horizontal common-size analysis of the cash flow statement

	2015	2016	2017	2018	2019
Cash flows from operating activities	181,971	236,244	539,151	488,007	631,653
Cash flows from investing activities	-228,310	-96,745	-815,422	-254,032	-1,201,358
Cash flows from financing activities	4,959	3,035	883,578	-1,415	791,869
Effect of exchange rate changes on cash and cash equivalents	-6,045	-15,208	28,880	1,083	-3,775
Change of net cash flow	-47,425	127,326	636,187	233,643	218,389

Source: Weibo’s cash flow statements from 2015 to 2019

In table 4.5 we can see that all inflows of operating activities had a stable increasing in 2015 to 2019. However, cash flow from investment activities has been negative for five years and is generally on the rise. Weibo’s 2018 annual report shows that it repaid the previous long-term liabilities in 2018. This factor led to a decrease in cash flow from financing activities of 1.415 million USD. Weibo operates in China, but it is listed in the United States, which involves exchange rate risk. Together with the impact of exchange rate fluctuations, we can see the change of cash flow in the last row of table 4.5. Net cash flow reached its lowest level in 2015 and reached its highest level in 2017. It can be said that the biggest influence is the exchange rate factor. In general, the net cash flow has been cash inflows in the past four years, showing the company’s increased liquidity and solvency

Chart 4.9: Absolute change of horizontal common-size analysis of Cash flows



	2016/2015	2017/2016	2018/2017	2019/2018
Cash flows from operating activities	54,273	302,907	-51,144	143,646
Cash flows from investing activities	131,565	-718,677	561,390	-947,326
Cash flows from financing activities	-1,924	880,543	-884,993	793,284

Source: Own elaboration based on Weibo’s income statements from 2015 to 2019

According to chart 4.5, we can see that the absolute change in cash flow from investment activities has been inversely proportional to the change in cash flow from the other two activities. And after 2016, the magnitude of change in cash flow from the investing and financing activities has also increased. This shows that the manager has started to use cash for financial management and investment.

4.2. Financial ratio analysis of selected company

In this subchapter, based on data from Weibo's financial statements and the relevant formulas introduced in chapter two, we will use financial ratio analysis to more intuitively assess Weibo's changes in financial conditions between 2015 and 2019, including profitability, liquidity, solvency and activity ratios.

4.2.1. Profitability ratio analysis

In this part, profitability ratio includes the profit margin and the return ratios. The profitability ratios analyze the company´s ability to generate profit from invested capital, using data from a specific point in time. As we introduced in chapter two, we will use the methodology to find the profitability ratios by using the data in the balance sheet and income statement, using formulas from (2.7) to (2.12).

The table 4.6 shows the detailed information needed to calculate the profitability ratios.

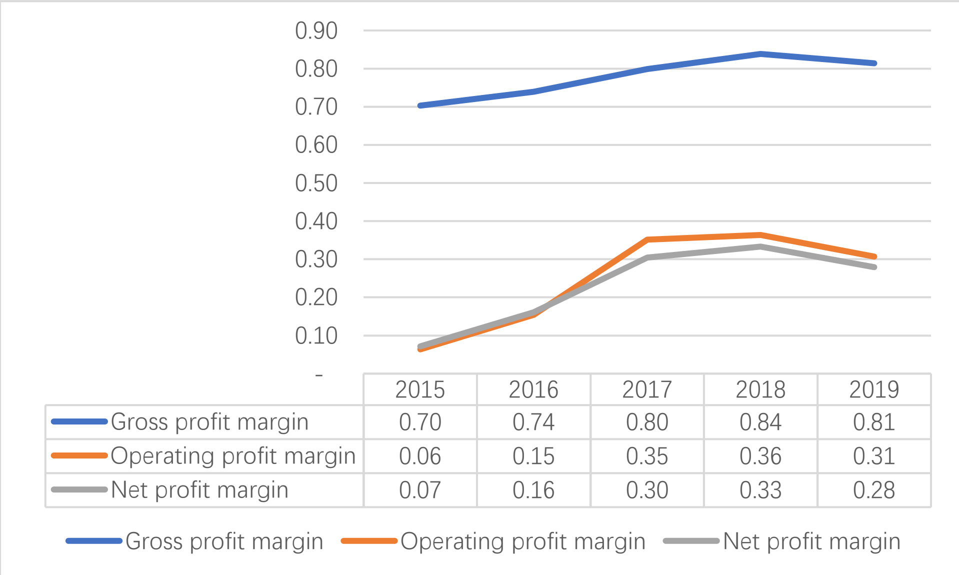
Table 4.6: Data about profitability ratio analysis

	2015	2016	2017	2018	2019
revenue	477,891	655,800	1,150,054	1,718,518	1,766,914
cost of revenues	141,960	171,231	231,255	277,648	328,826
gross profit	335,931	484,569	918,799	1,440,870	1,438,088
EBIT	30,436	101,223	403,851	625,034	542,501
EAT	34,189	105,664	350,365	572,620	492,833
assets	839,189	1,036,944	2,561,819	3,274,682	4,804,186
equity	628,029	757,358	1,194,794	1,748,138	2,281,819
current liabilities	208,775	278,103	484,876	629,844	800,855
capital equity	630,414	758,841	2,076,943	2,644,838	4,003,331

Source: Weibo's financial statements from 2015 to 2019

After calculating by formula (2.7) (2.8) (2.9) we can get table 4.10. The chart shows the value and trend of gross, operating and net profit margins over the past five years.

Chart 4.10: Trend of three kinds of profit margin from 2015 to 2019



Source: Own elaboration based on Weibo's financial statements from 2015 to 2019

Gross profit margin (GPM) indicates the percentage of gross profit and sales revenue (or operating income). We can see that GPM has increased year by year from 2015 to 2018. Although it has dropped a little in 2019, it is always higher than 0.7 and growing overall.

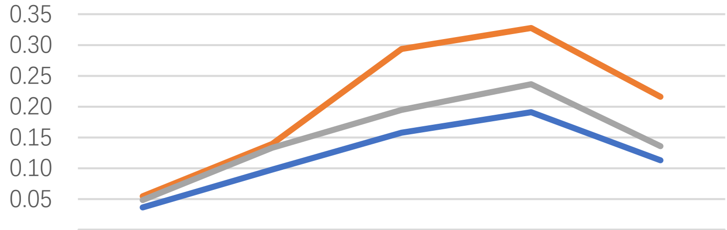
As we can see from chart 4.10, Both Weibo's operating profit margin (OPM) and net profit margin (NPM) show a trend of rising first and then declining steadily from 2015 to 2019.

For OPM, the reason is the continuous relatively high growth of revenues and the slow growth or even decline of EBIT. More specifically, the rapid increase in operating costs and the increasing impairment of investment related have led to this situation.

As for NPM, we can see that from 2015 to 2017, Weibo's NPM show a growth trend, reaching 33% by 2018 The NPM grew almost by 4 times from 2015 to 2018, but its growth began to slow down from 2018 to 2019.

We can conclude that GPM, OPM and NPM are increasing overall. Although there has been a slight decline in the last year, we can still say that Weibo's profitability is increasing.

Chart 4.11: Trend of three kinds of profitability ratio about return from 2015 to 2019



	2015	2016	2017	2018	2019
Return on assets	0.04	0.10	0.16	0.19	0.11
Return on equity	0.05	0.14	0.29	0.33	0.22
Return on capital employed	0.05	0.13	0.19	0.24	0.14

Source: Own elaboration based on Weibo's financial statements from 2015 to 2019

Similar to the previous trend of the profit margin, the rate of return is also a trend that rises first and then drops around 2018.

Through chart 4.11, ROE has the largest increase, with an increase of 28 percentage points from 2015 to 2018, but ROE also experienced the largest decline in 2019, with a decrease of 11 percentage points. In the previous analysis, we know that Weibo borrowed a large amount of long-term liabilities in 2017, so the sharp increase in 2017 ROE can be explained. On the contrary, the curves of the ROA and ROCE where the denominator contains long-term debt is relatively flat.

Since the denominator in the calculation of ROE includes only shareholders' equity, which is smaller than the denominator of ROA (liabilities + shareholders' equity), it is higher than ROA at given EBIT. Although the molecular EAT of ROE is larger than the molecular EBIT of ROA, the gap between EBIT and EAT is negligible when compared with the gap between total assets and total equity. From this point of view, if a company uses a lot of financial leverage to improve the ROE level, but does not seriously operate the company, investors are likely to be blinded by the falsely high ROE. Therefore, compared with ROE, ROA can more fully reflect the utilization rate of assets by enterprises.

In summary, the profitability of Weibo has been increasing in the past five years, but the growth rate has begun to stagnate or even begin to decline. The above situation may start to continue or decline, if Weibo does not make an innovation and find new ways to make profit.

4.2.2. Liquidity ratio analysis

Liquidity is not only a measure of how much cash a business has, but also a measure of how easy for the company to raise cash or convert current assets into cash. The table 4.7 shows the detailed information needed to calculate the liquidity ratios, which includes current ratio, quick ratio and cash ratio. All data are coming from Weibo's 2015-2019 balance sheets.

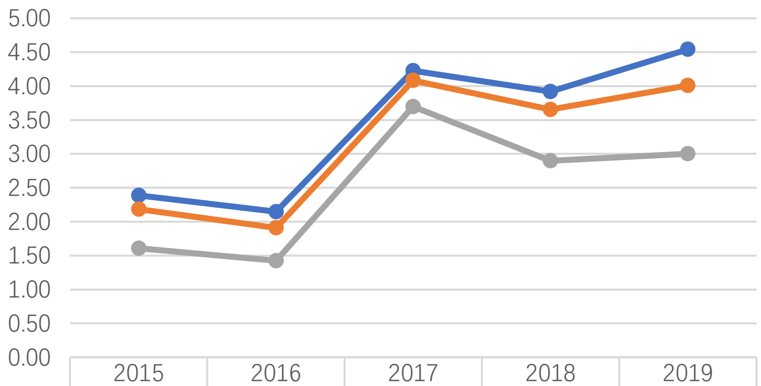
Table 4.7: Data about liquidity ratio analysis

	2015	2016	2017	2018	2019
Current Liabilities	208,775	278,103	484,876	629,844	800,855
Current assets	498,404	597,237	2,048,372	2,469,098	3,636,178
Current assets-Inventories	456,109	530,573	1,979,139	2,300,277	3,211,273
Cash+ marketable securities	335,879	395,954	1,792,683	1,825,865	2,404,220

Source: Weibo’s financial statements from 2015 to 2019

According to the formulas (2.13) (2.14) (2.15) and the data in table 4.7, we can get the chart 4.12 as following.

Chart 4.12: Trend of three kinds of liquidity ratio from 2015 to 2019



	2015	2016	2017	2018	2019
Current ratio	2.39	2.15	4.22	3.92	4.54
Quick ratio	2.18	1.91	4.08	3.65	4.01
Cash ratio	1.61	1.42	3.70	2.90	3.00

Source: Own elaboration based on Weibo’s financial statements from 2015 to 2019

As we can see from the chart 4.12, during 2015 to 2016 and 2017 to 2018, all the three ratios of current ratio, quick ratio and cash ratio went down, illustrating the company's short term paid ability decreased general. Nevertheless, overall, the liquidity of Weibo's assets is very strong. None of the three liquidity ratios is less than 1, even up to 2, 3 or 4 from 2015 to 2019. Meanwhile, these excessive ratios reflect that managers have not used the funds effectively. To some extent, some potential profit opportunities are lost.

In summary, the liquidity of Weibo is very good, but it is a bit too high, which is not conducive to the revenue creation of assets. Managers should be bold and consider more investment projects.

4.3.3. Solvency ratio analysis

Solvency ratios, sometimes called financial leverage ratios, measure the company's ability to meet its long-term obligations. The table 4.7 shows the detailed information needed to calculate the liquidity ratios, which includes debt-to-assets ratio, debt-to-equity ratio and interest coverage. All data are coming from Weibo's 2015-2019 balance sheets and income statements.

Table 4.8: Data about solvency ratio analysis

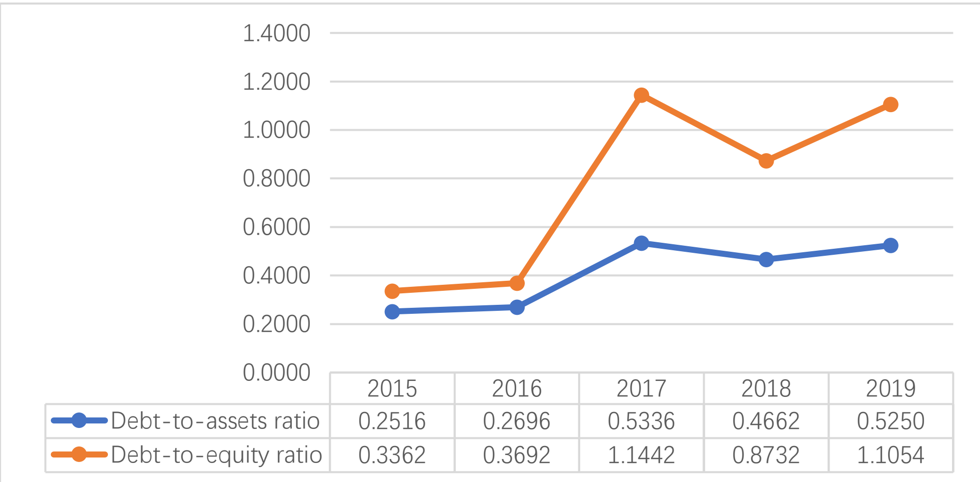
	2015	2016	2017	2018	2019
Total Assets	839,189	1,036,944	2,561,819	3,274,682	4,804,186
Total Liabilities	211,160	279,586	1,367,025	1,526,544	2,522,367
Total Equity	628,029	757,358	1,194,794	1,748,138	2,281,819
EBIT	30,436	101,223	403,851	625,034	542,501
Interest payments	2,863	1,148	60,000	2,196	1,731

Source: Weibo's financial statements from 2015 to 2019

According to chart 4.13, from 2015 to 2017, the debt-to-asset ratio almost doubled and the debt-to-equity ratio more than tripled. Although the ratios decreased in 2017 to 2018, they rose back again in 2018 to 2019. The debt-to-assets ratio of 0.525 in 2019 indicates that 52.5 percent of the company’s assets are financed with debt. Obviously, higher debt will bring higher financial risks, which also means that the solvency is weaker. According to the trend of the debt-to-asset ratio curve in chart 4.13, we can say that the risks of Weibo's operation are getting bigger and bigger. But as long as the manager carefully trade-off the leverage, this around 0.5 ratio is still reasonable.

The debt-to-equity ratio is higher than 1 in 2017 and 2019, which means Weibo uses more debt for assets financing than equity in these two years. And its trend is growing. If the company's debt-to-equity ratio is less than 1, it is better for the company. Therefore, the long-term financial situation of Weibo is not optimistic and needs to be resolved.

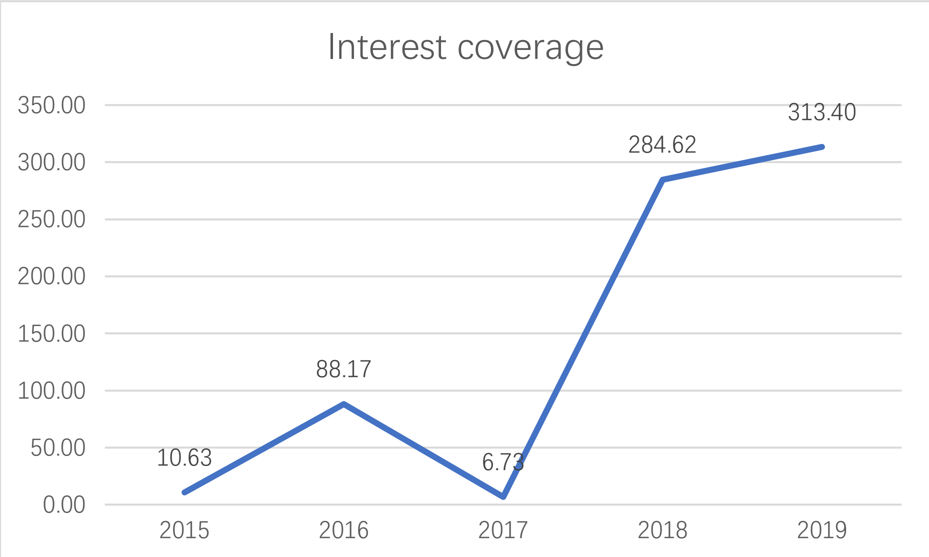
Chart 4.13: Trend of solvency ratio from 2015 to 2019



Source: Own elaboration based on Weibo’s financial statements from 2015 to 2019

Interest coverage is the ratio of the profit that can be used to pay interest to the interest payable in the current period. Through chart 4.14, the interest coverage has increased from 10.53 in 2015 to around 300, which indicates the stronger solvency, offering greater assurance that the company can service its debt from operating earnings. The interest coverage went down to a minimum of 6.73 in 2016 to 2017. It can be found in Weibo's income statement that too much investment-related impairment in 2016 caused a reduction in EBIT, which further led to the firm's EBIT could cover its interest payments got less at that time.

Chart 4.14: Trend of solvency ratio from 2015 to 2019



Source: Own elaboration based on Weibo's financial statements from 2015 to 2019

In summary, both the debt-to-assets and the debt-to-equity ratios are increasing. Interest coverage is quiet satisfying. On the whole, as long as the operator can carefully adjust the leverage, Weibo's solvency is not a problem.

4.2.4. Activity ratio analysis

Activity ratios can reflect the effectiveness of the management of working capital and long-term assets. Assets efficiency utilization has a direct impact on liquidity. The numerator in the activity ratios´ formula usually comes from the income statement, and the denominator is usually the data in the balance sheet.

Because Weibo is an Internet company with no inventory, inventory turnover analysis is not needed below. The table 4.9 shows the detailed information needed to calculate the activity ratios, which includes average collection period, account receivable turnover and total assets turnover. All data are coming from Weibo's 2015-2019 financial statements.

Table 4.9: Data about activity ratio analysis

	2015	2016	2017	2018	2019
Revenue	477,891	655,800	1,150,054	1,718,518	1,766,914
Account receivable	86,269	116,054	170,100	369,093	422,225
Total Assets	839,189	1,036,944	2,561,819	3,274,682	4,804,186

Source: Weibo's financial statements from 2015 to 2019

Average collection period (ACP) indicates that how long does it take to convert accounts receivable into cash. Using the data in table 4.9 and formula (2.19), we can calculate the ACP, as shown in the table 4.10.

Table 4.10: Average collection period of Weibo (In days)

	2015	2016	2017	2018	2019
ACP	64.99	63.71	53.25	77.32	86.03

Source: own calculation based on company's financial statements

According to table 4.10, from 2015 to 2017, the ACP keep declining, showing that the company converts accounts receivable into cash in a higher and higher efficiency. The ACP was the shortest in 2017, indicating that the company can convert accounts receivable into cash with the fastest speed in 2017, only 53.25 days. The ACP keep going up during 2018 to 2019. It's not good, this trend shows that the company needs to spend more time to get the same amount of accounts receivable. The company's costs will increase.

Accounts receivable turnover (ART) calculated how many times the accounts receivable are "rolled over" during a year. Using the data in table 4.9 and formula (2.20), we can calculate the ART, as shown in the table 4.11.

Table 4.11: Account receivable turnover of Weibo

	2015	2016	2017	2018	2019
ART	5.54	5.65	6.76	4.66	4.18

Source: own calculation based on company's financial statements

Through their formula, ART and ACP are reciprocal, which means they are inversely proportional. Therefore, for company, the higher amount of ART is better. Like the trend of ACP, the company can get 6.76 receivables a year in 2017, which is the most effective year. The number of times the company can receive each year from 2017 to 2019 is getting less and less, which contrasts with the results of ACP analysis.

Total asset turnover (TAT) is an indicator of the benefits that a company uses to create profits. Using the data in table 4.9 and formula (2.22), we can calculate the TAT, as shown in the table 4.12.

Table 4.12: Total assets turnover of Weibo

	2015	2016	2017	2018	2019
TAT	0.57	0.63	0.45	0.52	0.37

Source: own calculation based on company's financial statements

As we can see from the table 4.12, during 2015 to 2019, TAT fluctuates up and down every year, but the value of TAT is still around 0.5 in the past five years, which is relatively stable. However, TAT of Weibo is not very high, and there has been a downward trend in recent years. This means that the assets of each unit less can only create and less revenue.

In summary, the activity efficiency of Weibo is not very ideal. Both ACP and ART are developing towards a bad trend, and TAT also began to show a downward trend in 2019. The efficiency of a company is very important, and Weibo may need some younger and bolder decisions to lead the older generation to break through.

5. Conclusion

In this chapter, we will draw conclusions about the financial status of Weibo Corporation and the whole thesis. The goal of the thesis is to apply financial analysis methodology in order to assess the financial performance of Weibo Corporation from 2015 to 2019.

In Chapters one and two, we introduce many financial terms and formulas that will be used in this thesis. The third chapter gives a structural introduction to the management and operation of Weibo Corporation. Then Chapter 4 introduces two financial analysis methods and applies these two methods, which are common-size analysis and financial ratio analysis. The following are the conclusions drawn through these financial analysis methods.

Through common-size analysis towards three major statements of Weibo Corporation, we find that 2015 to 2017 were years of strong development of Weibo Corporation. Weibo was the largest and most impactive social media platform on the Internet in China at that time. From 2015 to 2017, Weibo's total assets continued to grow, and tripled in three years. Current assets have accounted for more than 50% of total assets in the past five years, reflecting Weibo's strong cash flow. From 2015 to 2018, net profit has also maintained growth, but in 2019 there was a negative growth. After 2017 to 2019, the rate of asset growth has slowed, and many long-term investments have gradually turned into short-term investments. The proportion of current assets gradually declined after reaching the peak in 2017. Total equity has also decreased in proportion since 2017, and long-term liabilities have gradually become the bulk of the right column of the balance sheet. Overall, for Weibo, 2017 was a turning point for trends, while 2019 was a turning point for positive and negative.

Through financial ratio analysis towards profitability ratio, liquidity ratio, solvency ratio and activity ratio, we find some advantages and disadvantages of Weibo.

The profitability of Weibo has been increasing in the past five years, but the growth rate has begun to stagnate or even begin to decline. The liquidity of Weibo is very good, but it is a bit too high, which is not conducive to the revenue creation of assets. And Weibo's solvency is not a problem, its various solvency ratios are very central. Last but not least, the decline in asset management capabilities: both ACP and ART are developing towards a bad trend, and

TAT also began to show a downward trend in 2019. As long as the current manager can carefully adjust the capital structure and focus on product innovation to maintain research and development, Weibo maybe can find new ways to make profits and break through the existing difficulties.

To sum up, although Weibo's liquidity and solvency are good, its profitability and asset management capabilities are not strong enough, and even a significant decline has occurred. In the future development, Weibo management needs to find out the trend of this network product, improve profitability, and at the same time strengthen internal asset management.

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List of Abbreviations

ACP: Average collection period

ART: Account receivable turnover

CEO: Chief Executive Officer

CNNIC: China Internet Network Information Center

CNY: Chinese Yuan

EAT: Earning after taxes

EBIT: Earnings before interest and taxes

EBT: Earnings before taxes

GPM: Gross profit margin

IPO: Initial Public Offerings

IT: Inventory turnover

NPM: Net profit margin

OPM: Operating profit margin

Rev: Revenues

ROA: Return on assets

ROE: Return on equity

ROCE: Return on capital employed

TAT: Total assets turnover

T: Taxes

t: Corporate tax rate

USD: United States Dollar

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List of Annexes

Annexes

Annex 1: Balance sheet of Weibo from 2015 to 2019 (In thousands of USD)

	2015	2016	2017	2018	2019
Cash and cash equivalents	237,440	364,766	1,000,953	1,234,596	1,452,985
Short-term investments	98,439	31,188	791,730	591,269	951,235
Accounts receivable	86,269	116,054	170,100	369,093	422,225
Amount due from SINA	33,961	18,565	16,356	105,319	384,828
Prepaid expenses and other current assets	42,295	66,664	69,233	168,821	424,905
Current assets	498,404	597,237	2,048,372	2,469,098	3,636,178
Property and equipment, net	22,850	22,816	33,793	45,623	46,729
Intangible assets, net	1,966	1,100	517	21,103	17,524
Goodwill	11,117	10,266	13,420	29,346	28,989
Long-term investments	294,679	399,933	452,337	694,586	1,027,459
Other assets	10,173	5,592	13,380	14,926	47,307
Long-Term Assets	340,785	439,707	513,447	805,584	1,168,008
Total Assets	**839,189**	**1,036,944**	**2,561,819**	**3,274,682**	**4,804,186**
Accounts payable	2,532	48,997	134,950	123,730	126,247
Accrued and other liabilities	154,964	180,142	268,615	317,437	460,872
Deferred revenues	39,091	48,964	81,311	99,994	108,783
Other current liabilities	12,188	-	-	88,683	104,953
Total current Liabilities	208,775	278,103	484,876	629,844	800,855
Total long-term liabilities	2,385	1,483	882,149	896,700	1,721,512
Total equity	628,029	757,358	1,194,794	1,748,138	2,281,819
Total liabilities & equity	**839,189**	**1,036,944**	**2,561,819**	**3,274,682**	**4,804,186**

Annex 2: Income statement of Weibo from 2015 to 2019 (In Thousands of USD)

	2015	2016	2017	2018	2019
Third parties	207,657	428,275	780,545	1,172,136	1,202,437
Alibaba	143,650	57,908	84,688	117,696	97,772
SINA and other related parties	51,108	84,799	131,512	209,348	230,002
Advertising and marketing revenues	402,415	570,982	996,745	1,499,180	1,530,211
Value-added services revenues	75,476	84,818	153,309	219,338	236,703
Total revenues	**477,891**	**655,800**	**1,150,054**	**1,718,518**	**1,766,914**
Cost of revenues	141,960	171,231	231,255	277,648	328,826
Sales and marketing	126,059	148,283	275,537	527,424	465,339
Product development	143,444	154,088	193,393	249,873	284,444
General and administrative	28,925	41,218	42,315	43,755	90,721
Goodwill and acquired intangibles impairment	0	0	0	10,554	0
Total costs and expenses	**440,388**	**514,820**	**742,500**	**1,109,254**	**1,169,330**
Income from operations	**37,503**	**140,980**	**407,554**	**609,264**	**597,584**
Income (loss) from equity method investments	0	0	1,030	57	-13,198
Realized gain (loss) from investments	944	534	14	-287	612
Fair value changes through earnings on investments, net	0	0	0	40,074	207,438
Investment related impairment	-8,005	-40,161	-4,747	-24,074	-249,935
Interest and other income, net	6,344	8,757	13,260	43,808	59,896
Loss from equity method investments	-6	-130	0	0	0
Income (loss) before income tax expenses	**36,780**	**109,980**	**417,111**	**668,842**	**602,397**
Provision of income taxes	2,591	4,316	66,746	96,222	109,564
Net income (loss)	**34,189**	**105,664**	**350,365**	**572,620**	**492,833**
Less: Net loss attributable to non-controlling interests	-556	-2,363	-2,225	797	-1,842
Net income (loss) attributable to Weibo	**34,745**	**108,027**	**352,590**	**571,823**	**494,675**
Other comprehensive loss	-7,874	-18,898	37,822	-60,273	-19,029
Net change, net of tax	-198	2,265	-995	0	0

Total comprehensive income (loss)	**26,117**	**89,031**	**387,192**	**512,347**	**473,804**
Less: Comprehensive loss attributable to non-controlling interests	-829	-2,637	-1,926	668	-1,927
Comprehensive income (loss) attributable to Weibo	**26,946**	**91,668**	**389,118**	**511,679**	**475,731**
Shares used in computing net income (loss) per share attributable to Weibo					
Basic	208,163	214,745	220,555	223,751	225,452
Diluted	217,918	222,859	225,363	232,683	226,412
Income (loss) per share					
Basic	0.17	0.50	1.60	2.56	2.19
Diluted	0.16	0.48	1.56	2.52	2.18

Annex 3: Cash flow statement of Weibo from 2015 to 2019 (In Thousands of USD)

	2015	2016	2017	2018	2019
Cash flows from operating activities	181,971	236,244	539,151	488,007	631,653
Cash flows from investing activities	-228,310	-96,745	-815,422	-254,032	-1,201,358
Cash flows from financing activities	4,959	3,035	883,578	-1,415	791,869
Effect of exchange rate changes on cash and cash equivalents	-6,045	-15,208	28,880	1,083	-3,775
Change of net cash flow	-47,425	127,326	636,187	233,643	218,389